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DEPARTMENT OF TAXATION ANNOUNCEMENT NO. 2008-09

Re: Proposed Rules Regarding Deduction and Capitalization of Expenditures Related to Tangible Property; Fed. Reg. Vol. 73, No. 47, pp. 12837-12867

On March 10, 2008, the United States Department of the Treasury promulgated proposed regulations regarding deduction and capitalization of expenditures related to tangible property. Specifically, the new proposed regulations are Prop. Regs. §§ 1.162-3, 1.162-4, 1.162-6, 1.263(a)-0, 1.263(a)-1, 1.263(a)-2 and 1.263(a)-3.

The Treasury has indicated that, generally, taxpayers' treatment of amounts paid to conform with these proposed regulations will be a change in method of accounting under IRC § 446(e). The Treasury has also indicated that because these proposed regulations will not be effective until finalized, taxpayers may not change their accounting method to conform to a method of accounting provided in the proposed regulations until the regulations are finalized.

Internal Revenue Code section 263 and its attendant regulations are incorporated into the Hawaii Revised Statutes and Hawaii Administrative Rules by HRS § 235-2.3 and HAR § 18-235-2.3. Therefore, the Department will follow these proposed regulations and will honor necessary changes in methods of accounting when the regulations are published as finalized.

For further information on these proposed regulations, please contact the Rules Office at (808) 587-1577 or the Internal Revenue Service.

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